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British Columbia Ferry Commission

Annual Report
for the Fiscal Year Ending March 31 2006

Prepared and submitted in accordance with
Section 53 of the Coastal Ferry Act
of the Province of British Columbia

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British Columbia Ferry Commission

To the Lieutenant Governor in Council

Comox, B.C.
July 31st 2006

May It Please Your Honour:

BC Ferry Commission Annual Report
For the Fiscal Year Ending March 31 2006

I am pleased to submit to you the second Annual Report of the BC Ferries Commissioner.

As required by section 53 of the Coastal Ferry Act, the Report sets out briefly all applications and requests for decisions to the commissioner under the Act, all orders issued by the commissioner, the financial statements applicable to the office of the commissioner for the above period along with full disclosure of the expenses of, and associated with, the office of the commissioner.

Yours truly,

MLCrilly

Martin Crilly
BC Ferries Commissioner

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1 Highlights and Message from the Commissioner

March 31 2006 marked the end of the third year of operations under British Columbia's Coastal Ferry Act and the Coastal Ferry Services Contract. It was an eventful year in which some of the regulatory levers saw their first use.

Our monitoring of BC Ferries' performance on its 25 regulated routes shows that **BC Ferries substantially succeeded in its core task of conveying vehicles and passengers over the province's coastal waters**. Overall, BC Ferries operated reliably and punctually, while maintaining its capacity and service frequencies at or above the minimum requirements and charging fares within the controlled maximums.

Amount of Ferry Service Provided

Specifically, we found that BC Ferries met virtually all its core service obligations in terms of number of sailings on each route, while carrying slightly less traffic on those sailings:

- the company **sailed at least the contracted minimum number of trips** on all but three routes, after adjusting for trips cancelled for allowable reasons. On those three routes, the trips missed were less than 0.5% of the contract requirement.
- overall, BC Ferries provided, at its own discretion, **more than the minimum contracted quantity of service.** On the major route group, which accounts for half of BC Ferries' workload, the number of sailings exceeded contracted levels by 2%.
- system-wide **traffic declined slightly**, with vehicles carried down 0.1% to 9.7 million and passengers down 1.3% to 21.7 million.

Quality of Service

As to service quality, **on-time performance improved, measured congestion was about the same, and customer satisfaction declined slightly**:

- overall, **on-time performance** improved: the percentage of sailings leaving within 10 minutes of schedule rose to an average of 85%, with a range of 49% to 98% across the routes. A lower percentage indicates a tightly scheduled service with conditions such as high commuter traffic periods, long-distance runs, multiple ports and poor weather conditions.

- the percentage of sailings departing full and **leaving customers waiting** on the dock was 33% for major route sailings, which often run close to capacity, and an average of 7% for minor route sailings, similar to the previous year.
- In 2006, 18% of drivers of passenger cars, vans, pickups and recreational vehicles paid a **reservation fee** on the major routes, a similar percentage as the previous year[1]. It is certainly desirable for customers to have the option of making a reservation. We remain of the view, offered in our previous reports, that the Act's exclusion of reservations from regulation leaves an opportunity to exploit monopoly control over the amount and price of reserved space.
- the annual survey by an outside polling firm, required under the Coastal Ferry Services Contract, shows overall **customer satisfaction** to be generally high, but slightly less than the previous year.

Fare Levels and Fuel Surcharges

We measure **fare levels** every three months using an index of weighted average fares for each of the seven route groups. Under the Coastal Ferry Act, on November 1 2005 fare caps rose 2.8% for the major group and 4.4% for others (before fuel surcharges—see below). We found that **BC Ferries kept its fare levels within these caps**.

- On the **major routes**, BC Ferries made full use of the allowed increase by raising fare levels accordingly.
- On some **other route groups** it did not make full use of the allowed increase. For example, on the minor route group (of 16 routes mainly serving Gulf Islands), the measured actual fare index was 2% to 4% below the cap throughout the year. It may be that unexpectedly high sales of discount-priced prepaid tickets brought down the weighted average fare index, and BC Ferries did not react to raise fare levels as allowed in response to this change in traffic mix.

Fuel Surcharges Added to Ferry Fares

- **in July 2005**, 4% and 6% surcharges for major and other routes respectively
- **in February 2006**, a second, additional surcharge of 1.5% and 3%.
- **in June 2006**, after the end of the reporting period, of 3.2% for major routes and 9.6% for most of the other route groups.

On top of the above increases and in light of escalating prices for **marine diesel fuel**, both actual and forecast, we granted two **extraordinary fare cap increases** during the year (see box, left), on both occasions less than the company requested. Even with these fuel surcharges, BC Ferries remained out-of-pocket due to extraordinary fuel prices: after offsetting fuel surcharge revenue, the out-of-pocket amount grew from $8 million at the start of the year to $23 million by year end, as tracked in fuel cost deferral accounts.

We set a **fuel conservation** target for BC Ferries through March 2008 and required the company to show a fuel conservation plan by June 2006. Continuing high fuel prices make catch-up harder, but we aim for much lower deferral account balances by the end of the first performance term in March 2008.

[1] The lowest percentage (16%) occurred in the January – March time period, and the highest percentage (23%) occurred in the July – September time period.

Fleet Replacement and Renewal

In July 2005 BC Ferries proposed to acquire **an intermediate sized ferry** for the minor route group to replace the aging Queen of Tsawwassen. We found the $51 million acquisition to be "reasonably required" in the meaning of the Act and assured the company that we would recognize the vessel's cost when setting fare caps on the minor routes for the second performance term.

A serious loss of capacity occurred near the end of the year due to the tragic sinking of the **Queen of the North**. This interrupted core service in the northern route group. BC Ferries mounted an immediate effort to restore service by unconventional, temporary means. It began an urgent search, which we have since independently determined to have been thorough, for a replacement vessel. The main impact upon BC Ferries and its customers occurred after the end of the year and will be addressed in our next annual report.

Efficiency

We are charged to work for **efficiency** in the delivery of ferry services, attending to **cost-minimization** and **productivity** (see box, left). Growth in overall productivity can be statistically measured: it means growth of output (in terms of traffic carried) relative to the growth of inputs (e.g. labour, fuel, use of vessel and terminal capacity, maintenance and materials) used to produce the output.

Efficiency-Related Mandates

The Coastal Ferry Act directs the Commission to:

- encourage BC Ferries to **minimize costs**, without adversely affecting safe compliance with core ferry services (in s.38 of the Act);
- set fare caps for the second performance term incorporating the **productivity gain** that we believe BC Ferries should achieve in that term (s.41(5)).
- encourage BC Ferries to seek **additional or alternative service providers through fair and open competitive processes**, to subcontract the delivery of core services an effort to **reduce the costs** of providing them (s.38, 69).

A preliminary analysis of BC Ferries' output and input data to March 2006 indicates that the company's **fuel productivity has notably improved**. However, productivity growth of other inputs (labour, capital equipment, maintenance and other materials and services used) has either been flat or negative. As a result, when all inputs are considered together, **no overall productivity growth has occurred in the past three years**.

As part of the price cap review for the second performance term, now underway, the Act obliges us to set an achievable **productivity target** for the second performance term. We have yet to examine fully the scope for future productivity gains to set this target. However, in our view, one opportunity lies in **redefining core service**—i.e. what routes are served, with how much service—to better match (a) the changing travel needs of communities and/or (b) BC Ferries' changing delivery capabilities.

We fully recognize that the determination of core service has implications for taxpayer support and is a policy decision belonging to the Province, in its Coastal Ferry Services Contract with BC Ferries. We respectfully raise this matter for the Province's consideration.

The contract has the virtue of providing certainty for all parties as to future service levels. At the same time, we submit that certainty should not translate into rigidity, and that **a review of core service levels, especially for tax-payer supported routes, is warranted and timely** toward the end of the first performance term in March 2008.

We are aware that minor adjustments (e.g. of schedules) have already been made in core service, but more substantial ones may be justifiable. We observe that:

Examples of Core Service Adjustments

- on one hand, a ferry-dependent community might be willing to **pay more for higher service levels** (e.g for extended hours of service, especially in the summer) that may be of more value to customers than the current service, some of which they may be willing to forgo;
- on the other hand, a community might support **lower service levels if customers could participate in the cost savings** through lower fares, resulting in cost-savings all round;
- a community with particularly thin demand might be better served by **"on-demand" ferry service, and/or subsidized air service**, rather than by scheduled ferry service;
- on routes other than the major routes, there may be attractive **provincial capital investments in fixed infrastructure** (including but not necessarily bridges[2]) which could reconfigure ferry service patterns and reduce the cost of ferry services, leading to lower fares and/or taxpayer support through ongoing service fee payments.

BC Ferries receives direct community input through local advisory committees. It is well placed as operator to recognize cost-saving and productivity-enhancing changes in core service. However, as operator but not policy-maker for the system, BC Ferries is not strongly motivated to take the lead in pointing out and promoting such changes. The Commission would be pleased to assist in any way in the exploration of possibilities.

One approach to cost reduction is **alternative service delivery**. Generally, this could involve BC Ferries engaging other firms in a wide variety of business relationships and opportunities, using subsidiaries, joint ventures, strategic partnerships, third-party subcontracts or franchises, and other innovations.

During the year, overseen by the Commission (see box), BC Ferries sought alternative service providers (ASPs) to provide capital investments in vessels and terminals, as required, and deliver a full range of services on some of its designated routes.

Despite these efforts, in our view the Coastal Ferry Act's **alternative service delivery clauses have yet to achieve their intended effect**.

There are several challenges, lying partly in contradictions and practical implementation problems seemingly inherent in the regulatory model. Among them are:

- a discrepancy between the relatively **long contract term (e.g. 10 years) required to attract an ASP investor-operator** and the shorter 4-year performance term adjustments that occur in fare caps, service fees and service levels, which are beyond BC Ferries' control;

Efforts to Implement Alternative Service Provider Provisions

- in June 2005, we sponsored an **invitational seminar** for ferry operators interested in becoming ASPs, with guest labour representatives;
- in October 2005 we endorsed an approach to competitive tendering of routes featuring a "**Chinese wall**" inside BC Ferries to separate two teams: an evaluation team for sealed ASP bids, and a bid team for BC Ferries own competitive sealed bid as incumbent operator, all overseen by a **fairness auditor**.
- in February 2005, we agreed with BC Ferries that this approach was too cumbersome, and agreed to a more **conventional subcontracting model** validated by **external expertise** at critical stages, yet to be elaborated.

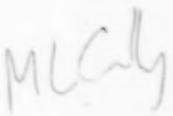
[2] We note that local governments have formally declared opposition to new bridges for Gulf Islands.

- how to deal with the **risk that BC Ferries faces in the event of failure by the ASP** to deliver the required quantity and quality of service, bearing in mind that BC Ferries must backstop the ASP: BC Ferries remains the regulated entity and retains responsibility for ensuring that core service, as contracted with the province, is actually provided; and
- cost penalties for using ASPs due to a net **increase in GST and income tax** applicable under a subcontracting arrangement.

So far, remarkably few ASPs have shown sustained interest in providing service. Some may be deterred by challenges they see in the business model. To minimize its risks, BC Ferries has set the qualifying hurdles for ASPs understandably high.

BC Ferries has stated legitimate concerns about the risks and complexities entailed in engaging alternative service providers. The Commission has difficulty discerning whether and, if so, how much these concerns are amplified by an understandable reluctance to relinquish a significant portion of its in-house core operation. Nonetheless the Commission intends to continue to pursue its mandate in fostering alternative service delivery as a potentially cost-effective approach.

Respectfully submitted,



Martin L. Crilly
British Columbia Ferries Commissioner
July 31st, 2006

2 The Role of the Commission

Policy Principles for the BC Ferry Commission
Coastal Ferry Act, s 38

(a) priority is to be placed on the financial sustainability of the ferry operators;
(b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
(c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
(d) ferry operators are to be encouraged to minimize expenses without adversely affecting their safe compliance with core ferry services;
(e) cross subsidization from major routes to other designated ferry routes is (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under this Act, and (ii) before its elimination, to be minimized;
(f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

The **BC Ferry Commission** regulates ferry operators under the Coastal Ferry Act of 2003. The Province appoints the commissioner and up to two deputy commissioners as statutory officers for six- to eight-year terms. They are independent of both the government and of ferry operators. In August 2003 Martin Crilly of Comox was appointed Commissioner. In September 2004, Alan Eastwood of North Saanich was appointed Deputy Commissioner.

Their decisions cannot be appealed, except on a question of law. They may be terminated only for mental infirmity, conviction for an indictable offence under Canada's criminal code, or a judicial finding of conflict of interest or material breach of duties or obligations.

The Commission is not an ombudsperson acting to resolve any private disputes with ferry operators; nor is it a general complaints or compliments bureau. Further, it is not responsible for regulating safety or environmental impacts of ferry operations.

In exercising its powers as watchdog, the Commission is obliged to follow six policy principles in protecting the public interest (see box, left).

BC Ferries was created in April 2003 from the former BC Ferry Corporation, which was a taxpayer-supported crown corporation. It is now a self-financing company with a mandate to widen travel choices for users and improve service quality.

Under a long-term contract with the Province, BC Ferries must operate its system to provide defined **minimum core service levels** on each of the 25 routes. On three of them, called **major routes,** which are financially self-sufficient, BC Ferries receives no subsidy. On the other 22, the government pays BC Ferries a **ferry transportation fee** per-round trip sailing for a total maximum fee of $91.9 million.

One of the Commission's tasks is to **regulate ferry fares**. The Commission sets a ceiling or "price cap" on the average level of fares which BC Ferries can charge. The goal in setting the price cap is to balance consumer protection with financial sustainability of the ferry operator, while encouraging efficiency.

The routes are divided into seven geographic groups. Each group has its own price cap, which is a ceiling on the weighted average level of the

individual fares within the group. The level is re-set after every fourth year. Each four year[3] period is termed a "performance period". In its surveillance of ferry fares, the Commission ensures that the weighted average of ferry fares, for each of seven groups of routes, does not rise above the cap for each group. If it does, the Commission may penalize the operator unless corrective action, e.g. reducing fares, is taken within the next quarter.

Regulation of service quantity

In overseeing the amount or **quantity of service** provided by BC Ferries, the Commission monitors the adherence of BC Ferries to the terms of its service contract with the Province. The Commission checks that the numbers of sailings on each route are at a minimum equal to those required in the service contract, subject to an allowance for missed sailings for certain reasons (e.g. bad weather). If there is a shortfall in the quantity of service the operator sacrifices the service fee and may face other more serious consequences.

Regulation of service quality

While the broader and less readily measured performance parameter of **service quality** (e.g. punctuality, reliability, comfort and convenience to customers, or other qualitative dimensions of ferry service) are of great import to ferry customers, the Commission does not try to regulate in this area. To do so would be difficult, inconsistent with the legislature's intention that regulation be exercised in a light handed fashion and could lead to arbitrary and ineffectual regulation.

However, the Commission does track BC Ferries' regular reports of its on-time performance, and the number of "overload" sailings which depart leaving customers behind in the waiting area. The Commission also inspects regular customer satisfaction sampling surveys which BC Ferries is contractually bound to carry out using an outside polling firm.

Pro-competitive regulation

Although BC Ferries has weighty service obligations, it also enjoys **privileges as a near-monopoly**. It has exclusive use of terminals, which are facilities of major strategic and competitive importance to an operator. On 22 of its routes (those other than the three major routes), BC Ferries is the sole recipient of taxpayer support. The company is also income-tax exempt. It has the advantages of a large, incumbent operator with flexibility in vessel deployment, able to take advantage of economies of scale and network coverage. These give the company a low risk profile from the investors' perspective and result in a comparatively low cost of borrowing.

These advantages are intended by the legal and contractual framework, but they effectively **protect BC Ferries from meaningful competition**. There are few existing competitors against whom to benchmark BC Ferries. The market and regulatory structure does not foster the emergence of such competitors in future.

In this context, to promote **efficiency**—which helps keep down both ferry fares and the need for taxpayer funding—the Commission's rulings aim to provide incentives to BC Ferries to deliver ferry service in an

[3] Except for the first performance period, which is five years, ending on March 31, 2008.

efficient fashion while maintaining the required priority on its financial sustainability.

The Coastal Ferry Act requires BC Ferries, in each performance period, to submit to the Commission a plan to **seek additional or alternative service providers** (ASPs)—and then to execute that plan. ASPs could **serve on BC Ferries routes under subcontract**, if they could reduce the costs of ferry operations. The Commission sees this clause, in part, as guarding against the danger of BC Ferries, in the absence of little other competition, becoming complacent about its own methods and cost-efficiency. The Act empowers the commission to penalize BC Ferries if it considers that BC Ferries has not submitted a satisfactory plan, and to order it to submit one—and to execute it—to a deadline.

Commission probes

Overall, the Commission is alert for information, either from its own observations or from the public, suggesting how the performance, service quality, efficiency or productivity of ferry operations could be improved. The Commission may decide to launch a probe on any topic of interest to it, in which the ferry operator is legally required to answer the Commission's questions and comply with any resulting orders, with no appeal.

3 Activity Summary

Commission Activities in the fiscal year 2005/6

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1. **Regulation of Ferry Fares**
   - monitored weighted average fares and price caps, and confirmed that actual fares were below the caps
   - approved two extraordinary increases in price caps due to higher actual and expected fuel prices.

2. **Regulation of Service Levels**
   - confirmed that BC Ferries substantially delivered contracted round-trips
   - allowed a temporary service reduction in the Queen Charlotte Islands

3. **Special Decisions**
   - declared one new ship to be reasonably required.

4. **Enforcement**
   - monitored BC Ferries public reporting.

5. **Publication and Outreach**
   - maintained records, published decisions, and communicated with the public and stakeholders.

6. **Administration and Reporting**
   - operated an office, obtained support services and consulting advice, and wrote its Annual Report, Service Plan and 2006/7 Budget.

The Commission's activities fall into **six headings** shown on the left. These headings are the same as those used on the Commission's Service Plan and Budget for the period ending March 31 2006, published in September 2004.

The core, ongoing activities are in headings 1 and 2: the **regulation of fares** through the price cap mechanism, and the **regulation of service levels**.

Special decisions under heading 3 include pre-approval of major capital deployments (e.g. new ships) on application from a ferry operator. The Commission found BC Ferries to be in compliance with the law and so no **enforcement** action (under heading 4) was necessary.

Two busy areas were to inform the public about the Commission's role (under heading 5 - **publication and outreach**) and maintaining routines and procedures under **administration and reporting** under heading 6.

Readers will find **more detail** in the table on the following pages. It lays out the Commission's **planned versus actual activities** under the same headings, keyed to the relevant section number of the Coastal Ferry Act.

Activity number	Coastal Ferry Act Section	Activity Description	Level and Timing of Activity Anticipated In Fiscal 2005/6
1.0	**Regulation of Ferry Fares**		
1.1	39	Monitor how weighted average price is calculated	
		The Commission will monitor the functioning of the Average Fare Model. This was developed in collaboration with BC Ferries in 2003/4 as the key measuring tool for judging whether BC Ferries' weighted average fares are within the price cap established by the Commission. The model requires adjustment and improvement (e.g. for changes in type and quality of source data) and cross-checking from time to time. Where necessary, the operation of the model will be externally validated.	The Commission monitored the method of calculation of the weighted average fare index and price cap index. BC Ferries brought to the Commission's attention an error in the computation of the price cap index which was corrected.
1.2	38,65	Review BCF quarterly reports on price level	
		The Commission will specify contents required in BC Ferries quarterly reports respecting fare levels for each route group. The Commission will determine if the weighted average of the tariffs charged for each route group, as measured using the above Average Price Model are within the price cap established, and if not make appropriate orders.	The Commission reviewed quarterly reports of fare levels, whose numerical values are summarized in the following section of this report. For the major route group, the retroactively corrected price cap index (mentioned immediately above) resulted in two consecutive "offside" quarters. This was addressed by BC Ferries returning the excess revenue earned to ferry customers through fare reductions in the subsequent quarter.
1.3	42	Handle any BCF applications for extraordinary price increases	
		The Commission will review and consider applications by the ferry operator for extraordinary tariff/price cap increases, for example due to extraordinary increases in the price of fuel.	BC Ferries made two applications for extraordinary price cap increases during the year due to escalating marine diesel fuel prices. **On June 10, 2006 BC Ferries applied** for such an increase of • 8% in the price cap for the Route Group 1 (Major Routes) and • 13% for each of the other routes groups (except group 7 Langdale-Gambier-Keats). BC Ferries also requested that the Commissioner review the hedging strategy proposed by BC Ferries, and acknowledge that the strategy is considered to be appropriate. In our **Order 05-02 of July 24 2006**, following the statutory 30 days for public input and a preliminary decision within 30 days submitted as required to the Province and BC Ferries, we authorized extraordinary price cap increases of: • 4% on the major route group and • 6% on the others. The Commission required BC Ferries to absorb 5% of the increase in fuel costs over budget, and allowed 6% interest on Deferral Account balances. We ordered the fuel surcharge be reduced or eliminated as and when the balances in the Deferral Accounts are eliminated and fuel oil prices have declined to a level within the adjusted set price. The increase shall cease no later than March 31 2008. The reductions or eliminations of the fuel cost surcharge shall be carried out separately for route group one (the majors) and for all other route groups together. We acknowledged that BC Ferries intends to undertake a fuel cost hedging program and, without approving a specific level of hedging, agreed that gains or losses from hedging should be credited or charged to the Deferral Accounts.

			On November 28, 2005 BC Ferries applied to increase the fuel surcharge which had been levied on ferry customers since July 24 2005. BC Ferries stated that not only was the first fuel surcharge that the Commission allowed starting July 24 2005 insufficient to cover actual fuel costs since then, but also its outlook for fuel prices had changed. Its new forecast of oil prices was some 20% higher for the next two to three years than the old one used as the basis of the first fuel surcharge application and Commission's ruling. Accordingly, BC Ferries stated that without an additional surcharge, its new higher forecasts of oil prices pointed to a $33 million accumulated shortfall by March 31 2008 between revenue generated from the first surcharge and forecast extra fuel cost. The requested increases were: • 2.5% on its three major routes and • 6% on all other routes except Langdale - Gambier - Keats. **In our Order 05-06 of January 20, 2006**, after the statutory period for public input and a preliminary decision provided to the Province and BC Ferries, we issued a final decision on BC Ferries' November 28, 2005 application. We granted the higher surcharge in two steps, with the first step for February 2006. The second step was conditional, possibly to occur in June 2006 depending on how fuel prices, and the price outlook through March 2008, changed in the meantime. The current outlook through March 2008, while quite uncertain, was considerably higher than it was when we had authorized the first fuel surcharge. Highlights of the decision were: • first-step increases of 1.5% for the major route group and • 3% for the other route groups were authorized, effective February 1, 2006; We stated that we would decide on possible second-step increases in June 2006 after reviewing the actual experience to that date and any new forecast information; such increases would be scaled so that, if actual and forecast (as of May 2006) fuel prices were unchanged from BC Ferries' current forecast, the increases would be 1% for the major route group and 3% for the other route groups; but if actual and forecast prices were 6% below the current forecast, the second step increase would be zero. We provided BC Ferries with a fuel conservation target of 1% for fiscal 2006/7 and 2% for the following year, below the actual fuel volume consumed in the current year. It must absorb all fuel costs from using more than these targets; and was asked to provide by June 15, 2006 a comprehensive fuel conservation plan.
1.4	45	**Adjust price cap for any service cuts/route discontinuances**		
		The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap.		No activity on route discontinuance is allowed before October 2006 under the Coastal Ferry Services Contract between BC Ferries and the Province of BC.
1.5	40,41	**Conduct price cap review for next performance term**		
		The Commission will initiate on or before October 1 2006 a price cap review for second performance term.		We held a number of meetings with BC Ferries discussing overall methodology, critical issues and data requirements for the price cap review.

2.0	**Regulation of Ferry Service Levels**		
2.1	38,65	Review BCF quarterly reports on service level	
		The Commission will specify the format of, and review quarterly reports of BC Ferries as the ferry operator to determine if it is meeting the contract service requirements.	We reviewed performance reports quarterly. The following summarizes our conclusions. After adjusting the Contract requirements by allowable cancelled round trips, BC Ferries met the round trips requirements on all but three routes in the fiscal year ended March 31, 2006. Even on those three routes (Crofton-Vesuvius, Little River-Powell River and Gambier-Keats), the round trips missed were less than 0.5% of the contract requirement. For the BC Ferries operation as a whole, we note that in fiscal 2005/06: • Vehicle traffic was down 0.1% to 9.7 million vehicles • Passenger traffic was down 1.3% to 21.7 million passengers • The percentage of overloaded sailings remained similar to 2005 levels with 33% of major route sailings overloaded and an average of 7% of minor route sailings overloaded. Individual route overloads vary depending on a number of factors. • The percentage of sailings leaving within 10 minutes of the scheduled departure time increased to 85% of sailings. However, the range is between 49% and 98% of on-time sailings for individual routes. The lower percentage of on-time sailings generally indicates a schedule that is difficult to keep due to conditions such as high commuter traffic periods, length of route, multiple ports and poor weather conditions. Most routes experienced no change, or a small decline in their traffic. Routes which experienced traffic growth included: • Route 40 (Port Hardy – Mid-Coast) – vehicles +12.9%, passengers +5.0% • routes serving Powell River (Route 17 Comox-Powell River, Route 18 Texada – Powell River, and Route 7 Earls Cove – Saltery Bay) with vehicle traffic increasing between 1.7 % - 4.4% and passenger traffic increasing between 1.7% - 2.7% • Route 5 (Swartz Bay – Southern Gulf Islands) – vehicles +3.5%, passengers +1.3% • Route 6 (Vesuvius – Crofton) – vehicles +1.7%, passengers +0.6% Highlights for the major routes (1, 2 and 30), between Vancouver Island ports (Swartz Bay, Departure Bay and Duke Point) and lower mainland ports (Tsawwassen and Horseshoe Bay) near Vancouver, are: • The major routes carry 47% of the total BC Ferries' vehicle traffic and 51% of the passenger traffic (4.5 million vehicles, 11 million passengers) • In 2006 major routes vehicle traffic decreased by 0.5% and passenger traffic decreased by 1.5% • The percentage of overloaded sailings increased slightly in 2006 to 33%. • The percentage of sailings leaving within 10 minutes of the scheduled departure time increased in 2006 to 87% of sailings compared to 81% in 2005. • In 2006 there were 165 more sailings than originally scheduled, or about 2% of scheduled sailings.

			• The percentage of vehicle operators that paid a reservation fee on the major routes remained the same in 2006 at 18%.
2.2	38,66	Review BCF annual reports on service level	
		The Commission will specify the format of, and review annual reports of BC Ferries as the ferry operator to determine if it is meeting the contract service requirements. It will also review BC Ferries' annual customer satisfaction survey, which BC Ferries must provide to the Commission under the terms of the Coastal Ferry Services Contract.	We made a review of the BC Ferries annual report of service level and customer satisfaction survey, for fiscal 2004/5, and subsequently put questions of clarification to BC Ferries which were answered to our satisfaction.
2.3	43	Handle any BCF applications for service cuts	
		Review and consider any applications by the ferry operator for reductions in service (temporary reductions would occur immediately)	**In Order 05-04 on10 Sept 2005** we authorized a temporary reduction in service on Route 26 between Skidegate and Alliford Bay on the Queen Charlotte Islands to accommodate maintenance refit of the vessel MV Kwuna.. At BC Ferries request, due to late delivery of parts, **in Order 05-05 of 20 November 2005** we authorized an extension to December 20, 2005.
2.4	44	Handle any BCF applications for route discontinuance, possibly hold hearing	
		Review and consider any applications by the ferry operator to discontinue a route. After October 2006, route discontinuance applications may be made (the determination process takes 9 months).	No activity in the period of this service plan: route discontinuance is not allowed before October 2006.
3.0	**Special Decisions**		
3.1	55	On BCF request, decide if a proposed capital deployment is reasonable	
		If a ferry operator makes an application, the Commissioner will consider a proposed capital deployment or capital expenditures in connection with a route or terminal to determine if they are reasonably required. Consultants of various specialties will be engaged to undertake a "process audit" of the BC Ferries analysis.	**In Order 05-03 of 20 July 2005** we declared that the acquisition of an intermediate class vessel on the minor route group is reasonably required and that associated capital costs will be included in setting future price caps on ferry fares.
3.2	38(4)	Deregulate a ferry route if competition sufficient	
		Make a determination of removing the route designation for a route upon which sufficient competition exists so that regulation of that route is no longer necessary.	There were no investigations in FY2005/6.
3.3	69	Review BC Ferries Plan to Seek Alternate Service Providers	
		Monitor the market for ferry services with a view to encouraging competition for BC Ferries; monitor BC Ferries implementation of	**On June 15 2005 in Vancouver**, the Commission hosted a one-day seminar with presentations from BC Ferries, marine labour unions, and other ferry operators. Its purpose was to examine the opportunities and challenges for those operators. We published the Proceedings of the Seminar. This included information on what components of service (e.g. ships, crewing, marketing, etc), on which BC Ferries

		its "Section 69" Plan (formulated in 2004) for Alternate Service Providers to provide service on BC Ferries designated routes by subcontract, franchise, or other means.	routes, and when, are to be opened for bidding by ferry operators. **In August 2005** BC Ferries issued a 36 page **Supplement to its Alternative Service Providers Plan** of April 2004. This detailed the arrangements with alternative service providers, including what they would provide on each of the three clusters of routes planned to be tendered for operation in the first performance term, the timing of steps in the process and the constraints (contractual, legal and financial) to be observed. The supplement also outlined the procurement process steps, including the use of a Chinese wall within BC Ferries and a Fairness Auditor. **In February 2006** BC Ferries wrote **an Alternative Service Providers Plan Update**, which reported on the status at December 2005 of the search for ASPs on three clusters of routes, and gave a timetable for future activities. It amended the procurement approach: BC Ferries would now not submit a sealed bid of its own, as previously envisaged, to be evaluated along with competing bids. Instead, it would procure ASPs through more conventional subcontracting. The update explains the reasons for the change. **In March 2006, the Commission agreed, with conditions**, that BC Ferries could amend its approach to procuring alternative service providers as stated in a short Commission Memorandum #15 to BC Ferries. The Commission concurred that, given what had been learned in previous months, the role of fairness auditor, as previously defined in the ASP Plan Supplement of August 2005, became redundant and the Chinese wall unnecessary. The Commission stressed that **external reviews** would form an essential part of the process as sketched in the ASP Plan Update, so that the Commission can satisfy itself that selection criteria and evaluation are unbiased and not slanted towards BC Ferries. It also observed that BC Ferries may have closed the door too tightly on unsolicited proposals to operate its ferry routes.
4.0	**Enforcement**		
4.1	38(2)	Monitor BCF reporting to public	
		The Commissioner will observe how BC Ferries reports its own performance respecting pricing its fares under the price cap, and respecting its service level actually delivered versus the contracted service levels.	The Commission observed BC Ferries reporting to the public and had no comment.
4.2	46	Inspect BCF records as required	
		Order inspections of the records of the ferry operator as necessary	No activity was necessary through FY 2005/6.
4.3	48	Issue orders to BCF re: non-compliance with the law as required	
		Issue orders for non-compliance with the legislation as necessary	No activity was necessary.
5.0	**Publication and Outreach**		
5.1	52	Maintain Commission records, provide public access	
		Files will be maintained	Due mostly to public input received on BC Ferries applications for extraordinary

		accessible to the public under the Freedom of Information and Protection of Privacy Act. Response to public enquiries will be made via telephone, postal mail, e-mail. A web site will be maintained and regularly updated as needed, preferably at least monthly.	price cap increases (fuel surcharges, as described under 1.3 above, there was a large increase in communications between the Commission and the public, with some 1000 messages received and replied to, mainly by e-mail. There were no requests received under the Freedom of Information and Protection of Privacy Act The Commission website was the main vehicle for providing public access to information. It was regularly updated.
5.2	52	Publish decisions/determinations/orders/proceedings	
		The Commissioner will publish every decision, determination and order in a manner that the Commissioner believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum.	We published all decisions, determinations and orders on the Commission web site.
5.3	NA	Communicate with public and stakeholders	
		The Commission will actively communicate the role and responsibilities of the Commission to the public; make appearances in the media; make presentations and speeches to stakeholder groups.	The Commissioners gave interviews and participated in phone-in shows on Radio stations CKNW, CBC Radio 1 and CFAX and Eagle FM and appeared on television stations A Channel, and CHEK. The Commissioners paid a courtesy call to Attorney General the Hon. W. Oppal, discussed issues of mutual interest with officials of the Ministry of Transport, and met the Opposition critic for ferries. The Commissioner spoke to the Hornby/Denman Island Ferry Advisory Committee, the Islands Trust Council, the Probus Club of the North Shore, and a group of citizens at Central Saanich Municipal Hall.
6.0	**Administration and Reporting**		
6.1	36	Operate office and engage external support services	
		Operate the office of the Commission. Maintain arrangements for telephone, mail and electronic access. Rent office space as required. Office operations (secretarial, phone, courier, post, internet, website) Office equipment dedicated to Commission use. Work with Office of the Attorney General as provider of payment system on behalf of the Commission. Obtain internal bookkeeping, archiving, and legal services as required	There were no rental costs in the year due to virtual office operation. Accounting and payment system were provided by Office of the Attorney General at no charge to the Commission. No independent legal advice was required.
6.2	NA	Research background to ferry operating environment	
		This activity is Commissioner's ferry system familiarization and background study. The Commissioner intends to travel all ferry routes in person. Research and Investigations initiated by Commission	The Commissioner toured Deas Dock as BC Ferries principal in-house maintenance facility. He also traveled a number of ferry routes. The Commissioner made background study of price cap regulation and how productivity improvement "X" factors are set elsewhere in the world.

6.3	69	**Prepare Commission's annual budget**	
		Budget will include expenditures reasonably expected to be incurred in the following year, supported by a Service Plan for the year.	We wrote and submitted the Commission's Service Plan and Budget for 2006/7 to the Province and BC Ferries.
6.4	53	**Report annually to Lieutenant-Governor in Council**	
		Within 4 months after the end of each fiscal year, the Commissioner will make a report to the Lieutenant-Governor in Council for the preceding fiscal year, setting out briefly (a) all applications and requests for decisions to the commissioner under the Act, (b) all orders issued by the commissioner, (c) the financial statements applicable to the office of the commissioner for that year along with full disclosure of the expenses of, and associated with, the office of the commissioner, and (d) other information the Lieutenant-Governor in Council directs.	We wrote and published the Commission's annual report for the fiscal year ending March 31 2005.

4 Average Fare Levels

The table below shows the values of a price cap index (=100 at 2003) and compared to an index of actual weighted average fares, for each of seven groups of routes in the BC Ferries system.

The figures are computed by methods laid down in Commission Order 05-01. They exclude extraordinary increases allowed in fiscal 2005/6 due to high fuel prices, which are separately measured and tracked.

Note that BC Ferries is allowed to exceed the price cap index for one (in highlighted boxes), but not two, consecutive quarters under the regulation.

These figures confirm that BC Ferries was in compliance with price caps in fiscal 2005/6.

Average Fare Index Summary

Route Group		Jun-2004	Sep-2004	Dec-2004	Mar-2005	Jun-2005	Sep-2005	Dec-2005	Mar-2006
#1: Majors									
	Cap	101.55	102.57	103.26	103.75	104.48	105.25	106.35	106.60
	Actual	101.12	102.42	[illegible]	103.45	104.25	105.11	106.32	[illegible]
#2: Minors									
	Cap	102.45	104.07	105.16	106.00	107.13	108.77	110.20	110.56
	Actual	100.46	101.87	104.14	104.63	105.51	107.29	107.06	106.78
#3: Northern									
	Cap	101.67	104.22	104.73	105.08	106.21	108.86	109.46	109.69
	Actual	101.52	103.38	103.70	104.05	105.25	107.44	107.78	108.12
#4: Route 3									
	Cap	102.49	104.04	105.20	106.05	107.21	108.79	110.22	110.63
	Actual	101.21	102.67	103.56	104.26	105.45	106.65	108.30	109.04
#5: Route 12									
	Cap	102.20	103.97	105.16	106.01	107.15	108.85	110.02	110.49
	Actual	100.63	[illegible]	104.71	99.60	96.18	107.35	106.06	106.61
#6: Route 13									
	Cap	102.41	104.09	105.23	106.03	107.29	108.68	110.00	110.66
	Actual	98.10	90.36	95.76	101.36	98.71	102.49	103.01	102.72
#7: Route 40									
	Cap	100.78	104.40	No Service		105.22	108.99	No Service	
	Actual	99.70	99.40			102.44	[illegible]		

5 Financial Statements

Accounting Services

The Commission is grateful for the assistance of the Ministry of the Attorney General which provides accounting, banking and payment services at no cost to the Commission. These financial statements are based upon the financial information provided by the Ministry.

Summary Financial Statements

BC Ferry Commission
Summary Financial Statements

	In $ thousands 2005/06 Budget	2005/06 Actual	2004/05 Actual
Statement of Operations			
Revenues	285	214	133
Expenditures			
Operating Costs	285	203	203
Surplus(deficit)	0	11	-70
Change in Net Assets			
Opening balance		78	148
Surplus(deficit)		11	-70
Net Assets end of year		89	78

Revenues

Revenues consist of a percentage levy on toll revenues from ferry operators. In fiscal year 2005/6, the total paid to the Commission by BC Ferries, the only ferry operator regulated by the Commission during the year, was $213,750.

Expenditures

Expenditures in fiscal 2005/6 were $202,606. Expenditures were for Commissioners fees and expenses and for the cost of consultants engaged to advise the Commission.

The cost of operating the Commission represented 0.057% of BC Ferries' toll revenue (i.e. excluding retail and other ancillary revenue and service fees) of $353.6 million for fiscal 2005/6, or about 1/4 of the maximum 0.20% of toll revenues allowed to the Commission by the Act in

any year in which there is activity under section 40 of the Act (establishment of price caps for the second performance term).

Commissioners' Remuneration

The Commissioner and Deputy Commissioner are paid by per-diem fee for their services. The Commissioner received $82,012 in fees during the year. In addition he was reimbursed $9,398 for expenses incurred during the year, including travel, dedicated office equipment, office supplies, telephone, web site and other communications expenses. The Deputy Commissioner received $25,500 in fees for his services and he was reimbursed $996 for travel and other expenses incurred in the period.

Net Assets

The difference between the amounts received from ferry operators and expenditures is carried forward for use in the next fiscal year. $89,715 was carried forward into fiscal 2006/7. The Net Assets of the Commission are included in the Financial Statements of the Province of BC.